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REVIEWS AND OVERVIEWS

Marco Weiss: Efficient Organizational Design— Balancing Incentives and Power

**Palgrave MacMillian, New York, NY, 2007, 344 pp,
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The book explores efficient organizational design through the development of an original theoretical framework and the discussion of applied examples.

The author moves from the proposition that a good organization design will result in a firm's better performance in terms of shareholders value creation. The concept can be extended also to not for profit organizations that don't adopt the value maximization as primary goal. For those organizations efficiency of organizational design should be related to specific goals that are suitable to be measured.

The book defines parameters of organizational design and highlights distinct pattern of successful configurations that allow an efficient organizational design.

The theory-building process has been conducted through a review of the contributions from different mainstream threads of literature: strategic management, organizational behaviour, knowledge management, international business. The process benefits from a relevant number of examples that are used to better explain some critical concepts and to exemplify concepts with the analysis of applied situations. Furthermore, the book presents three cases of applied organizational design, that are analysed in-depth according to the theoretical framework developed before. The accuracy of the theory-building process and the redundancy of applied examples and analysis make the book suitable both for graduate students and for practitioners, especially strategy consultants, which can use the proposed analytical approach to manage organizational design and development.

The book has a rational structure that is clearly articulated into two parts. The first part is dedicated to the theory-building process; the second part is dedicated to the analysis and discussion of three applied cases.

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The first chapter is an introduction to the entire work; it clarifies book purposes and structure, and contains a brief methodological note about comparative organizational analysis.

The first part of the book starts with the second chapter that is dedicated to an in-depth review of the literature on organizational design. The author identifies different analytical theories that address specific problems (like the agency theory and the incomplete contract theory) and he points out the importance of a systemic view of organization that can capture the dynamic and mutual relations between organizational variables and competitive environment evolution. The author discusses value creation and performance measurement in different kind of organizations to assess a specific performance measurement scheme that can be used for non profit companies. The last part of the chapter is dedicated to illustration of the evolution of economic environment and in particular to the following paths: the emergence of new competitive paradigms of innovation as creative destruction, the role of internet as engine of information diffusion, the effect of globalization, liberalization and deregulation and the evolution of financial system. The evolution of economic environment modifies boundaries of the firm and traditional analytical theories can hardly capture the complexity that is required to support an organizational design. A system approach, that considers interactions between firm and environment and is based on a dynamic balance between incentive and power, is more suitable to support efficient organizational design.

The third chapter is dedicated to the definition of building blocks of organizational design. Building blocks are set of variables that must be managed to define the organizational design, they are: strategy, boundaries of the organization, internal structure and governance. *Strategy* entails the definition of the following variables: long term goals of the firm, desired positioning in the economic environment, value chain definition, resources needed to sustain the positioning. *Boundaries* definition is the choice of the degree of vertical integration and the definition of outsourcing relationships with other economic actors like suppliers, commercial dealers, manufacturing partners. The *internal structure* deals with variables like power and incentive and with decisions in terms of information diffusion inside an organization, performance measurements and coordination mechanisms of organizational units. *Governance* is the fourth building block, that involves the definition of the legal basis that discipline relations with stakeholders within the organization and with other organizations and individuals.

The chapter four presents an in-depth analysis of building blocks management. A major point put forward by the author is that in order to achieve efficient organizational design it is fundamental to achieve complementarities among building blocks. The concept of complementarities is taken from the system theory and describes a self-reinforcing relation between two variables for which an increase in one variable will have a positive effect of the other and will increase the efficiency of the entire system. The presence of complementarities allows a consistent configuration among building blocks. For example complementarities can be interpreted as the coherence between the choices in terms of strategy (positioning, value chain design, resource definition) and in terms of internal structure of the firm (number of organizational units, incentives and coordination

rules). Complementarities define the business model of a firm. In the best-case scenario complementarities exist at the same time among all 4 building blocks. Of course, maintaining complementarities among building blocks is not an easy task since the parameters that characterize the building blocks of a firm change through time and under the action of competitive forces. In addition, complementarities are mutually influenced and self-reinforcing so that the evolution of one variable inside a single building block will influence other building block variables and the emerging configuration of complementarities.

The second part of the book is structured into three chapters dedicated each to a single case study on efficient organizational design. Cases are analysed using comparative organizational analysis; the organizational design of the firm targeted for the case study is compared to the design of one or more institutions that perform the same activities in the same industry. The first case is dedicated to the European security transaction industry that is constituted by a multitude of national agencies and settlement institutions that are coordinated with a combination of power and market. The European system is compared with an economic system in which a single firm coordinates all security transactions, as it is the case in the USA. The second case is about the German cooperative banking system. A group of small autonomous regional banks put in common selected activities that they cannot perform efficiently as single institutions. The efficiency of cooperative banking system organizational design is evaluated through a comparative organizational analysis with traditional integrated banks. The third case study is centred on open source software projects and related communities, this kind of organization has typically a not for profit orientation. The comparative analysis is made with a traditional, integrated, software company that has a for profit orientation.

All cases are developed mainly on company reports, published scientific and practitioner articles. Statistical data came from secondary sources (company reports and statistical bulletins), they are not collected 'on the field' by the author. The purpose of the cases is to illustrate the theory developed in the first part of the book and to show how to conduct a comparative organizational analysis based on building blocks. The cases of the book cannot be considered as research case studies (Yin 1984) developed as part of an exploratory research design. From the point of view of management scholars the design and the development of cases is suitable of some criticism, however it fits with the original idea of the author, to use cases to exemplify an analytical process especially for practitioner and graduate students.

The book main strengths are related to the original systemic approach that is articulated in the building blocks and complementarities definition. The idea that the effectiveness of organizational design depends on the dynamic equilibrium among 4 sets of variables that are mutually related is quite intriguing. The assumption that the dynamic nature is influenced by the evolution of economic environment and in particular by better circulation and use of information, reduction of trade barriers and globalization, fits with interpretation of competition as an adaptive-proactive dynamic process (D'Aveni 1994). Finally, another strong point of the book is the idea that an evolving economic environment creates the conditions for the diffusion of new organizations that are a combination of market and hierarchy, and have dynamic boundaries. The richness and complexity of these organizations, such as

the open source software communities, can be captured only with a systemic approach to organizational design.

References

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Author Biography

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